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C O N F I D E N T I A L SECTION 01 OF 03 KUWAIT 001279

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ENERGY FOR M. WILLIAMSON; STATE FOR NEA/ARP, EB/ESC/IEC,
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TAGS: [EPET](#) [EINV](#) [KCIP](#) [OIL](#) [SECTOR](#) [IZ](#) [KU](#)

SUBJECT: KPC CEO ON FUEL FOR IRAQ, CEIP, KUWAITI OIL AND
GAS ISSUES

REF: A. KUWAIT 1047
[1](#)B. KUWAIT 1027
[1](#)C. KUWAIT 1058
[1](#)D. KUWAIT 707
[1](#)E. KUWAIT 946
[1](#)F. KUWAIT 1026

Classified By: Charg d'Affaires Alan Misenheimer for reasons 1.4 (b)
and (d).

[1](#)1. (C/NF) Summary: On 19 August, Charg d'Affaires made an introductory call on Kuwait Petroleum Corporation Vice Chairman and CEO Saad Al-Shuwaib. Regarding a new fuel contract with the Government of Iraq to support power generation, Al-Shuwaib said KPC is ready to sign as long as the GOI accepts the stipulation that fuel tanker trucks must be allowed to cross into Iraq within three days of being filled in Kuwait. Al-Shuwaib said this is a safety and security issue. He said the GOI should agree to the terms quickly so that KPC can sign before any political obstacles resurface to prevent the contract from being approved. On Critical Energy Infrastructure Protection (CEIP), Al-Shuwaib said he is closely tracking progress and has been pleased with the results so far. He would like to see the program expanded to include Kuwait's electrical infrastructure. On proceeding with the construction of a \$14 billion refinery next to Saudi Arabian Chevron in the Neutral Zone, he said a final decision would be made in September. Several U.S. companies are interested. On Project Kuwait and/or other prospects for International Oil Companies (IOCs) in Kuwait, he said he hoped for a decision by the end of the year. KPC is currently in talks with Shell about gas production and with ExxonMobil about heavy crude production. While ramping up its domestic gas production capacity, Kuwait plans to import Liquefied Natural Gas (LNG) from Qatar for three to five years. KPC has reportedly approached Houston-based Excelerate about handling offshore regasification of the LNG. Al-Shuwaib said a new Oil Minister will probably be named after Ramadan. In the interim KPC has an excellent relationship with the Electricity and Water Minister, who is also serving as Acting Oil Minister. Al-Shuwaib said that over the long term, he would like to see KPC become more independent, like Saudi Aramco. End Summary.

KPC Ready to Sign with SOMO; Concerned about Idle Fuel Trucks

[1](#)2. (C) Charg d'Affaires and Econoff met with (KPC) CEO Saad Al-Shuwaib on 19 August to discuss Kuwaiti fuel supplies to Iraq to support power generation (Ref A), among other subjects. Al-Shuwaib said KPC sent the previously agreed

upon draft contract for new fuel to SOMO (Iraq's State Oil Marketing Organization) in recent days after adding one clause: KPC insists that northbound tanker trucks must cross the Iraqi border within three days of being filled in Kuwait. If the trucks do not cross within three days, KPC will demand that they return to their Kuwaiti filling stations to be offloaded. Al-Shuwaib says this is a safety and security issue in that the GOK considers it dangerous for full fuel trucks to loiter on Kuwaiti territory for extended periods of time, as has been the case with the 166 full fuel trucks that have been sitting idle in the middle of the Kuwaiti desert for the past 10-11 months due to a combination of border access issues and payment disputes.

13. (C) Al-Shuwaib says KPC is authorized to sign the contract as soon as SOMO accepts this additional clause. According to Al-Shuwaib, the outstanding \$2.4 million claimed from a previous SOMO fuel transportation contract by a Kuwaiti transportation company with strong political connections will not prevent KPC from signing the new fuel contract. (Note: According to an email sent from Baghdad by Ambassador Ries later on 19 August, Iraqi Minister of Oil Shahrastani has now authorized payment of the outstanding \$2.4 million to the company. The disbursement of this money should allow the company's 166 tanker trucks to finally deliver to Iraq the fuel they have been holding in Kuwait for a number of months. More importantly, it should remove a significant political obstacle that has prevented KPC from signing a new fuel contract with SOMO). According to Al-Shuwaib, if SOMO is able to return the amended contract to KPC for signature quickly, he will be able to sign before political obstacles are once again able to intervene.

14. (C) Al-Shuwaib was insistent that tanker trucks must not

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be allowed to loiter on the Kuwaiti side of the border. He asked for USG help to ensure that fuel truck convoys would be able to pass expeditiously through the military border crossing. (Note: Kuwait's Ministry of Interior does not allow filled tanker trucks to use the commercial border crossing at Abdaly-Safwan due to safety and security concerns.) Al-Shuwaib said that if it were necessary to detain tanker trucks for an extended period at the border, to allow military traffic to pass or for any other reason, a holding area should be established on the Iraqi side, not the Kuwaiti side. Econoff told Al-Shuwaib that the USG does not consider use of the military crossing to be a long-term solution to this problem. Al-Shuwaib said that he would speak to the Ministry of Interior about the long-term possibilities for opening the commercial crossing to tanker trucks and suggested the Embassy do the same.

KPC Supportive of Further Progress on CEIP

15. (C/NF) Al-Shuwaib said he had been fully briefed on the results of the visit by a USG CEIP team in June (Ref B). He remarked that he was pleased with the level of American-Kuwaiti cooperation and impressed by the rapid progress being made in identifying and addressing security vulnerabilities around Kuwait's oil infrastructure. Al-Shuwaib said he would continue to closely monitor CEIP efforts and suggested that these should be expanded to include enhancing the security of Kuwait's electrical infrastructure, without which the oil facilities would be unable to operate. The Charg told Al-Shuwaib to expect another CEIP visit in the fall and reminded him that the USG was eager to formalize USG-GOK CEIP cooperation through the establishment of a Joint Working Group and the signing of a Memorandum of Understanding.

Decision in September on New Refinery in the Neutral Zone

¶6. (C/NF) Regarding any final decision on proceeding with the construction of a new \$14 billion, 615,000 b/d refinery adjacent to the Saudi Arabian Chevron compound in the Divided Neutral Zone between Saudi Arabia and Kuwait (Ref C), Al-Shuwaib said the matter would be decided by Kuwait's Supreme Petroleum Council at their next meeting in early September. (Note: At least five international groups have submitted prequalification applications for the major contract packages including U.S. companies Foster Wheeler and Bechtel. U.S.-based Fluor is expected to manage the project, and chemical reactors will be provided by GE.)

Project Kuwait, Other Roles for IOCs Still Uncertain

¶7. (C/NF) Regarding Project Kuwait, the long-pending \$8.5 billion proposal to invite International Oil Companies (IOCs) to participate in the development and production of Kuwait's northern oil fields, Al-Shuwaib said any new movement would probably wait until after Ramadan and after the appointment of a new Oil Minister. Al-Shuwaib said he hoped a final decision would be made by the end of the year either to proceed with the project or to kill it once and for all. He said this proposal has lingered for too long and has damaged Kuwait's image. Possibly referring to a plan for enhanced technical service agreements (Ref D), Al-Shuwaib said there might be other ways to expand the IOC presence in Kuwait. He added that KPC was already in advanced talks with two IOCs regarding some form of partnership in the areas of gas production and heavy crude production. (Note: Based on reports from other oil sector contacts, the gas talks are with Shell and the heavy crude talks are with ExxonMobil.)

Short-term LNG Imports, Long-term Domestic Gas Production

¶8. (C/NF) Al-Shuwaib said Kuwait's need for gas was great, especially for clean power generation. He said Kuwait needed to shift from fuel oil to gas in order to reduce air pollution (Ref E). He added that his goal was to reduce the proportion of gas flared from Kuwait's oil production from current levels of 10% down to a more acceptable level of 1%. Al-Shuwaib said KPC was focused on ramping up production of

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the estimated 35 trillion cubic foot non-associated gas field discovered in 2006, but said Kuwait would need to import gas for the next three to five years until domestic gas production reaches a sufficient scale. He said that Kuwait was in talks with Qatar about LNG imports which he expected to start in 2008. Since the requirement would only be for three to five years, he said Kuwait would pay a private company to do offshore gasification rather than make a major capital investment in onshore LNG infrastructure. (Note: based on reports from other oil sector contacts, KPC plans to hire the Houston-based company Excelerate to do offshore regasification.)

Acting Minister Strong, New Minister Likely After Ramadan

¶9. (C/NF) Al-Shuwaib said that following the resignation of Oil Minister Shaykh Ali Jarrah Al Sabah in June (Ref F), Electricity and Water Minister Mohammad Al-Olaim has performed capably as Acting Oil Minister, though most of his time has been devoted to the power sector. Al-Shuwaib said that Al-Olaim, a former Kuwait Oil Company Engineer, is an effective decision-maker who enjoys a relationship of mutual trust and confidence with KPC's management. Al-Shuwaib insisted that KPC doesn't need much of the Minister's time since KPC can manage itself. He added that he would like to eventually see KPC become even more independent of the

Government, along the lines of Saudi Aramco.

¶10. (C/NF) Al-Shuwaib said he expected a new Minister to be named after Ramadan, which ends in mid-October. Complaining that the average tenure of an Oil Minister in Kuwait is only about 1.5 years, he hopes that the Government will appoint a new Minister who will be able to keep his position longer and take a long-term approach to decision-making.

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